

This record is a partial extract of the original cable. The full text of the original cable is not available.

UNCLAS MADRID 004405

SIPDIS

TREASURY PASS TRACI PHILLIPS

E.O. 12958: N/A

TAGS: [ECON](#) [EFIN](#) [SP](#)

SUBJECT: ANDALUSIA BALANCES BUDGET WITH GOS AND EU HELP

REF: A. MADRID 4385

[1](#)B. MADRID 3715

[1](#)1. Summary: The Andalusian budget which was presented to the regional Parliament the final week of October contains EUR 24.5 billion (USD 31.7 billion) in outlays, an increase of 10% over 2004. Andalusia has already received the funds necessary to pay for its budget expenditures from the central government and EU, paying only 50% of expenditures from tax income. Shortly after winning the March 14 elections, the Socialist government in Madrid assumed the Socialist regional government of Andalusia's outstanding debt, ensuring that the Andalusian region would be supportive during national budget negotiations. End Summary.

[1](#)2. EconOff and Econ Analyst met October 28 with Andalusian regional Secretary of Economy Antonio J. Avila Cano to discuss the Andalusian budget for 2005 and find out if the Andalusian government would be pressing for more handouts during the national budget debates. According to Avila, the balanced budget presented to the regional parliament projects EUR 24.5 billion (USD 31.7 billion) in expenditures, and increases overall spending by 10%. Andalusia's robust economy is expected to grow by 7% (compared with 2-3% nationally). Roughly 20% of the total will be spent on public investment and 80% on current programs.

Investment

-----

[1](#)3. The Andalusian budget for 2005 calls for spending increases of 8% in current programs and 24% in public investment. The regional government is particularly proud of the planned increases in investment. The investment line item includes budgetary increases of: 30.5% in R&D, 45% in infrastructure, 20% for universities and 56% on environmental projects. Key infrastructure projects include an extension of the AVE high speed train to Granada and Malaga, a new cross-regional highway, a second terminal for Malaga airport and mass transit projects in Seville, Granada, Malaga and Cadiz.

Half of Funding from Transfers

-----

[1](#)4. Even with recent growth, Andalusia remains one of Spain's poorer autonomous regions, and continues to receive significant budgetary funding from central government and EU sources. Only 40% of Andalusia's tax budget outlay is paid for by tax income collected by the tax authorities in Andalusia, and 10% from taxes levied directly by Andalusia. Direct transfers from the central government account for 30% of regional income, and EU transfers for infrastructure supply 10% of the budget. The final 10% of income comes from transfers from various agreements between the Andalusian government and individual ministries. (Note: Andalusia's per capita GDP of 69.4% of the EU average qualifies for EU structural funds. Once Andalusia's per capita income reaches 75%, predicted in 2008, it will lose this funding. An additional benefit Andalusia recently received from the national government was a payment of its regional debt of EUR 2.5 billion (USD 3.24 billion) that accumulated between 1997 and 2001 when the Socialist regional government did not accept the national Popular Party government's regional financing scheme and continued to spend more money than it received in transfers.

[1](#)5. Comment: The Andalusian government receives sufficient transfers from the national government and the EU to maintain a balanced budget. Unlike the Catalan regional government (ref B), the members of parliament from Andalusia are unlikely to make demands on the national government that will effect the overall national budget debate, especially since the national Socialist government subsumed Andalusia's regional debt shortly after winning the March 14 elections. Andalusia provided the greatest number of new Socialist seats in Parliament, accounts for 14% of Spanish GDP and 17% of the population. In the 2005 national budget, 13% of infrastructure investment will go to projects in Andalusia. The national government is keen to take care of the needs and wants of this most Socialist of autonomous regions.

ARGYROS